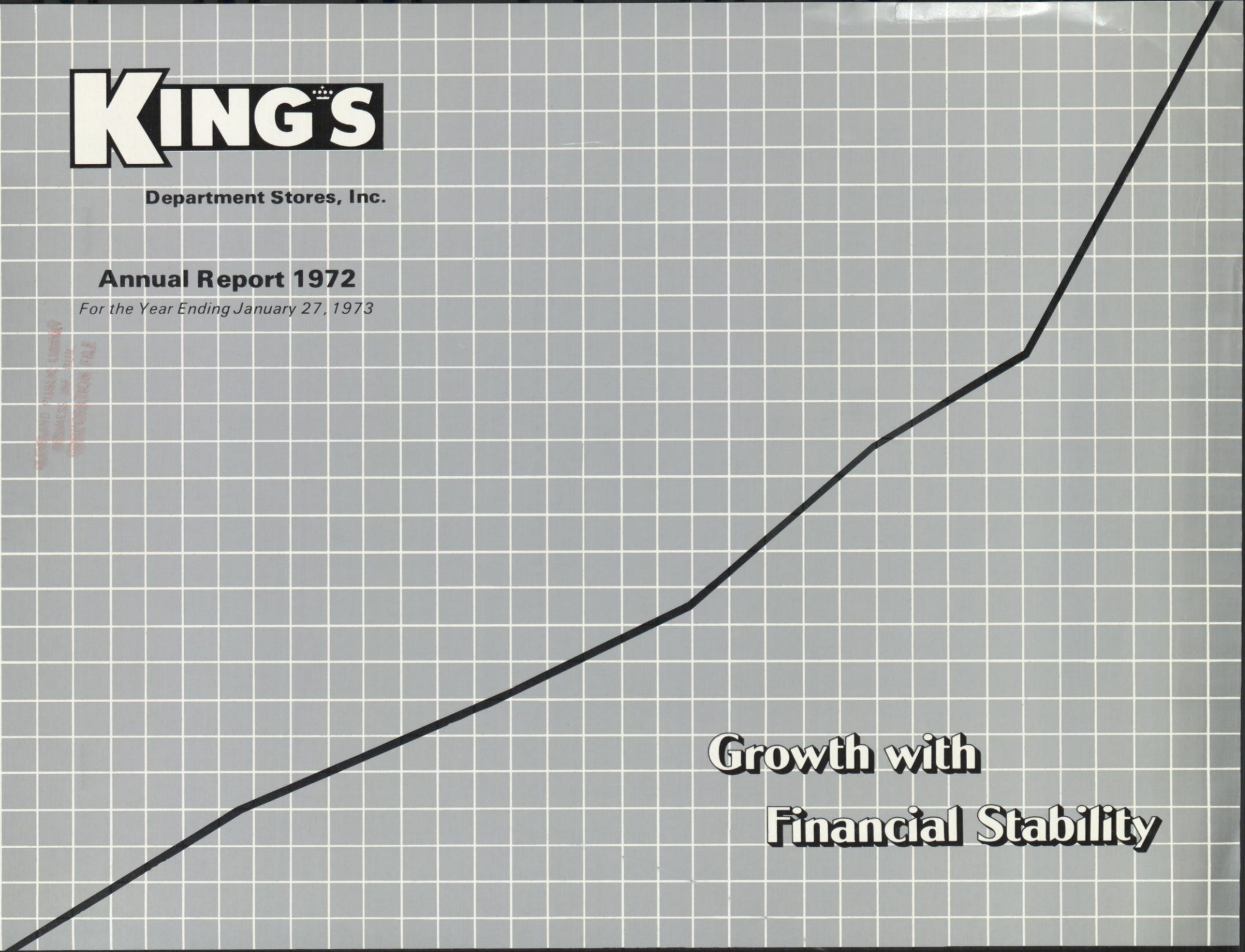
KING'S

Department Stores, Inc.

Annual Report 1972

For the Year Ending January 27, 1973



Growth with Financial Stability

ANNUAL MEETING: The annual stockholders' meeting of King's Department Stores, Inc. will be held on Wednesday, May 23, 1973 starting at 10 A.M. at the Marine Midland Bank, 140 Broadway, New York City. Stockholders are cordially invited to attend.

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The ascending graph line on our cover symbolizes King's steady growth and increased earnings on a strong financial foundation.

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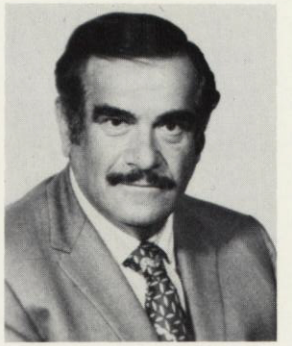


Aaron O. Cohen
Chairman

Murray A. Candib
President

To our Shareholders:

King's 23rd year was successful.

Our operating results are reported in the appropriate sections of this report, but the following accomplishments surface:

Our consolidated net earnings rose 3.3% to $9,176,000, a gain of $292,000 over the previous year (including an extraordinary item each year).

King's pre-tax income was 6.5% of sales and we achieved a 20.5% return on invested capital of $44,864,000 at January 29, 1972.

Excluding the extraordinary item, our earnings per share increased to .99¢ from .96¢ per share. The extraordinary item added 7¢ per share to our 1972 earnings.

To comply with the requirements of Phase II we pared our profit margins last year so that we would not exceed our base period margin. Last year's accomplishments, excellent as they were, must also be considered in light of the Phase II limitations.

On February 7, 1973, our Board of Directors increased our cash dividend to a 30¢ per share annual rate, the maximum allowable under current guide lines. King's paid $2,428,000 in cash dividends in 1972, the 12th consecutive year of payments.

Ten King's stores were opened in 1972 in the following locations: Hanover, Pennsylvania; Knoxville, Tennessee; Batavia, New York; Danville, Virginia; Raleigh, North Carolina; Norwood, Massachusetts; Middletown, Connecticut; with acquisitions reopened under King's name in Agawam, Chicopee and Ludlow, Massachusetts.

In February 1973 we leased nine units located in Ohio and Indiana that were previously occupied by Welles Department Stores.

We are now running 34 of our own shoe departments based on our previously announced decision to company-operate the entire shoe division. The transition was smooth and we are exceeding comparative sales.

A recurring question asked by market analysts and investors is "Can you tell us how King's has achieved and consistently maintains its high rate of earnings?"

The answer is "We have adhered to good basic business practices."

To itemize a few:

We provide quality goods only, national brands predominating, with courteous and efficient service at the lowest possible prices.

We guard our truthful advertising reputation and cover our ads with adequate quantities of advertised merchandise. A "money back guarantee" insures our credibility.

We have keyed our growth to the availability of King's trained personnel.

We are attracting and holding young talent that currently form the base for our 'promotion from within' policy.

We react to the needs of our employees for proper evaluation, growth and security which fosters the high morale and good relationships within our organization.

We are constantly improving our inventory control which gives us a high percentage of basic merchandise in stock, increases our merchandise turn, decreases our markdowns and decreases our average investment.

We analyze new merchandising concepts before making continuing commitments that have trapped many competitors in severe loss positions.

We have budgeted and are using sufficient funds to properly improve and maintain our physical facilities.

We have developed a cash flow that obviates the need of long term borrowing for normal operations.

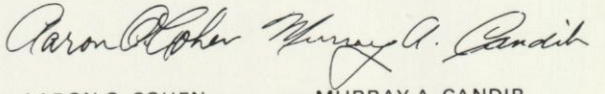
We have established a strong working capital position that enables us to successfully bid against competition for available stores that have good profit potential.

We concern ourselves with the state of our national economy, to the degree that we have complied with the spirit as well as the letter of Phase II regulations. We appreciate the relief accorded business under Phase III and will continue to voluntarily comply with these controls.

The nine stores already opened in 1973, plus planned new stores, with full year sales in units opened last year will give King's a substantial increase in new sales against which to apply our earnings potential.

We have every reason to be optimistic about 1973.

We offer our gratitude and appreciation to our stockholders, our customers, our fellow employees and our suppliers for their confidence, their loyalty and their service to our Company.



AARON O. COHEN
Chairman

MURRAY A. CANDIB
President

FORM NO. 9206

KINGS DEPT. STORES

PAGE NUMBER 8

OPERATING STATEMENT

STORE NO. 33 NEWTON

ACCOUNT DESCRIPTION	THIS MONTH				
	THIS YEAR		LAST YEAR		
	AMOUNT	PERCENT	AMOUNT	PERCENT	AMOUNT
TOTAL SALES	39,000,000.00		37,000,000.00		38,000,0
LESS LEASED DEPT SALES	1,000,000.00		1,000,000.00		1,000,0
TOTAL NET SALES	38,000,000.00	100.00	36,000,000.00	100.00	37,000,0
LESS COST OF GOODS SOLD	28,000,000.00	74.00	27,000,000.00	75.00	28,000,0
GROSS PROFIT	9,000,000.00	26.00	9,000,000.00	25.00	9,000,0
CONTROLLABLE EXPENSES					
STORE SALARIES	3,000,000.00	8.00	3,000,000.00	8.00	3,000,0
ADVERTISING	300,000.00	.80	300,000.00	.80	300,0
CASH SHORT	30,000.00	.08	30,000.00	.08	30,0
CLEANING AND MAINTENANCE	300,000.00	.80	300,000.00	.80	300,0
DONATIONS	3,000.00	.01	3,000.00	.01	3,0
INSURANCE	90,000.00	.24	90,000.00	.24	90,0
LIGHT AND HEAT	300,000.00	.80	300,000.00	.80	300,0
OFFICE SPLYS & EXPENSE	30,000.00	.08	30,000.00	.08	30,0
PAYROLL TAXES	300,000.00	.80	300,000.00	.80	300,0
PROTECTION	300,000.00	.80	300,000.00	.80	300,0
REPAIRS	300,000.00	.80	300,000.00	.80	300,0
STORE EXPENSES	30,000.00	.08	30,000.00	.08	30,0
TELEPHONE	30,000.00	.08	30,000.00	.08	30,0
TRAVEL	3,000.00	.01	3,000.00	.01	3,0
WASTE REMOVAL	3,000.00	.01	3,000.00	.01	3,0
WRAPPING SUPPLIES	3,000.00	.01	3,000.00	.01	3,0
MISCELLANEOUS EXPENSES	300,000.00	.80	300,000.00	.80	300,0
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

TEN YEAR FINANCIAL SUMMARY

For The Years Ended January

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Total Sales	242,404,000	$223,228,000	$216,915,000	$213,091,000	$201,288,000	$156,771,000	$128,392,000	$111,706,000	$100,819,000	$ 80,686,000
Leased Department Sales	26,465,000	28,569,000	31,560,000	32,361,000	32,019,000	26,847,000	22,351,000	27,041,000	28,722,000	22,770,000
Net Sales	215,939,000	194,659,000	185,355,000	180,730,000	169,269,000	129,924,000	106,041,000	84,665,000	72,097,000	57,916,000
Leased Department and Other Income	4,481,000	4,396,000	3,962,000	3,655,000	3,609,000	2,771,000	2,386,000	2,887,000	3,012,000	2,287,000
Total Income	220,420,000	199,055,000	189,317,000	184,385,000	172,878,000	132,695,000	108,427,000	87,552,000	75,109,000	60,203,000
Costs of Goods Sold and Expenses	204,623,000	183,437,000	174,886,000	171,535,000	162,256,000	123,649,000	100,930,000	80,884,000	69,315,000	56,911,000
Earnings Before Taxes	15,797,000	15,618,000	14,431,000	12,850,000	10,622,000	9,046,000	7,497,000	6,668,000	5,794,000	3,292,000
Federal Income Taxes	7,245,000	7,373,000	7,123,000	6,601,000	5,071,000	4,249,000	3,393,000	2,990,000	2,690,000	1,571,000
Earnings Before Extraordinary Credit	8,552,000	8,245,000	7,308,000	6,249,000	5,551,000	4,797,000	4,104,000	3,678,000	3,104,000	1,721,000
Extraordinary Credit	624,000	639,000	379,000	—	—	—	—	—	—	—
Earnings Per Share* Before Extraordinary Credit	.99	.96	.85	.73	.65	.56	.49	.44	.38	.21
Extraordinary Credit	.07	.07	.05	—	—	—	—	—	—	—
Stock Split (Stock Dividend)	—	2 for 1	—	—	2 for 1	5 for 4	10%	—	5 for 4	5%
Cash Dividends**	.28	.28	.20	.20	.20	.13	.13	.13	.08	—
Number of Stores	92	82	81	79	78	68	45	41	35	31

* Based on weighted average number of shares outstanding for each year.

** Adjusted for stock splits and stock dividends.

Statement of Changes in Consolidated Financial Position

Fifty-two weeks ended January 27, 1973

with comparative figures for the fifty-two weeks ended January 29, 1972

	1973	1972
Source of working capital:		
Earnings before extraordinary credit	$8,552,000	8,245,000
Add charges against earnings, principally depreciation and amortization and minority interest in earnings of subsidiary, not requiring use of working capital.	2,155,000	1,986,000
Working capital derived from operations before extraordinary credit	10,707,000	10,231,000
Extraordinary credit (note 4)	624,000	639,000
Working capital derived from operations	11,331,000	10,870,000
Proceeds from sale of shares under stock options	230,000	312,000
Net (increase) decrease in other assets	(36,000)	12,000
	11,525,000	11,194,000
Application of working capital:		
Additions to fixed assets	3,886,000	1,942,000
Cash dividends	2,428,000	2,417,000
Decrease in mortgage note payable	46,000	44,000
	6,360,000	4,403,000
Increase in working capital	$ 5,165,000	6,791,000
Summary of changes in working capital		
Increase (decrease) in current assets:		
Cash and marketable securities	$ 3,868,000	9,424,000
Receivables	(251,000)	(3,082,000)
Inventories	6,571,000	(146,000)
Prepaid expenses	47,000	55,000
Total increase in current assets	10,235,000	6,251,000
(Increase) decrease in current liabilities:		
Current installment on mortgage note payable	(2,000)	(3,000)
Accounts payable	(3,841,000)	(180,000)
Accrued expenses	(1,294,000)	(279,000)
Federal income taxes	67,000	1,002,000
Total (increase) decrease in current liabilities	(5,070,000)	540,000
Increase in working capital	$ 5,165,000	6,791,000

See accompanying summary of significant accounting policies and notes to consolidated financial statements.

Consolidated Statement of Earnings and Retained Earnings

Fifty-two weeks ended January 27, 1973

with comparative figures for the fifty-two weeks ended January 29, 1972

	1973	1972
Total store sales	$ 242,404,000	223,228,000
Less leased department sales	26,465,000	28,569,000
Net sales	215,939,000	194,659,000
Leased department income	3,180,000	3,487,000
Interest and other income, net	1,301,000	909,000
Total income	220,420,000	199,055,000
Cost of goods sold, transportation, warehousing and buying expenses	146,897,000	132,436,000
Store operating, administrative and general expenses including leased department expenses	55,774,000	49,216,000
Depreciation and amortization	1,625,000	1,444,000
Minority interest in earnings of subsidiary	327,000	341,000
Total costs and expenses	204,623,000	183,437,000
Earnings before Federal income taxes and extraordinary credit	15,797,000	15,618,000
Federal income taxes (note 4)	7,245,000	7,373,000
Earnings before extraordinary credit	8,552,000	8,245,000
Credit arising from utilization of net operating loss carry-forward (note 4)	624,000	639,000
Net earnings	9,176,000	8,884,000
Retained earnings at beginning of year	33,800,000	27,333,000
	42,976,000	36,217,000
Deduct cash dividends paid $.28 per share	2,428,000	2,417,000
Retained earnings at end of year	$ 40,548,000	33,800,000
Earnings per common share:		
Earnings before extraordinary credit	$.99	.96
Credit arising from utilization of net operating loss carry-forward	.07	.07
Net earnings	$1.06	1.03

See accompanying summary of significant accounting policies and notes to consolidated financial statements.

Consolidated Balance Sheet

January 27, 1973 with comparative figures for January 29, 1972

Assets

	1973	1972
Current assets:		
Cash	$ 2,680,000	2,385,000
Certificates of deposit, and other marketable securities at cost which approximates market	16,978,000	13,405,000
Receivables	969,000	1,220,000
Merchandise inventories	34,553,000	27,982,000
Prepaid expenses	229,000	182,000
Total current assets	55,409,000	45,174,000
Fixed assets, at cost:		
Land (note 1)	571,000	571,000
Building (note 1)	1,204,000	1,103,000
Fixtures and equipment	18,123,000	14,704,000
Leasehold improvements	1,727,000	1,562,000
	21,625,000	17,940,000
Less accumulated depreciation and amortization	10,605,000	9,143,000
Net fixed assets	11,020,000	8,797,000
Other assets:		
Unamortized leasehold acquisition costs	837,000	926,000
Investments and deposits	195,000	189,000
Other	620,000	590,000
Total other assets	1,652,000	1,705,000
	$ 68,081,000	55,676,000

See accompanying summary of significant accounting policies and notes to consolidated financial statements.

Liabilities and Stockholders' Equity

	1973	1972
Current liabilities:		
Current installment on mortgage note payable	$46,000	44,000
Account payable	7,792,000	3,951,000
Accrued expenses	4,328,000	3,034,000
Federal income taxes	1,266,000	1,333,000
Total current liabilities	13,432,000	8,362,000
Deferred compensation	400,000	350,000
Deferred Federal income taxes	470,000	444,000
Mortgage note payable (note 1)	658,000	704,000
Minority interest in subsidiary	1,279,000	952,000
Stockholders' equity:		
Preferred stock, $1 par value. Authorized and unissued 1,000,000 shares		
Common stock, $1 par value. (note 2) Authorized 15,000,000 shares; issued 8,681,000 shares (1972 - 8,642,000 shares)	8,681,000	8,642,000
Additional paid-in capital (note 3)	2,613,000	2,422,000
Retained earnings	40,548,000	33,800,000
Total stockholders' equity	51,842,000	44,864,000
Commitments (note 6)		
	$ 68,081,000	55,676,000

See accompanying summary of significant accounting policies and notes to consolidated financial statements.

Summary of Significant Accounting Policies

January 27, 1973

Fiscal Year

The fiscal year of the Company consists of fifty-two weeks, but every five to seven years the fiscal year consists of fifty-three weeks in order to maintain the year end near January 31.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned except Miracle Mart, Inc., which is approximately 81%-owned.

The Company uses the equity method of accounting for its investments in 50%-owned joint ventures which were established for the construction and operation of four shopping centers in which the Company is one of the principal lessees. The Company's share of the losses of the joint ventures is not material.

Inventory Valuation

Merchandise inventories are valued at the lower of cost or market, based mainly on the retail inventory method.

Depreciation and Amortization

Depreciation of fixed assets and amortization of leasehold improvements and leasehold acquisition costs are provided for book purposes on the straight-line method over the following estimated useful lives:

Building	40 years
Fixtures and equipment	10 years
Leasehold improvements	10 years
Leasehold acquisition costs	15-20 years

Store Pre-opening Expenditures

Expenditures of a non-capital nature incurred prior to the opening of a new store are charged to expense as incurred.

Pension Plan

The Company and the majority of its subsidiaries have a non-contributory insured retirement plan covering regular, full-time employees with three or more years of completed employment. The cost of retirement benefits, which is being funded, has been determined by the entry age normal method. Past service costs are amortized over a thirty year period.

Federal Income Taxes

The Company reflects the investment tax credit as a reduction of income taxes in the year the credit occurred (the flow-through method).

The Company has provided deferred Federal income taxes which reflect the tax effect of timing differences in reporting income for tax purposes. Such differences arise in accounting for depreciation and deferred compensation expenses.

Earnings Per Share

Earnings per common share have been determined using the weighted average number of shares of common stock outstanding, without consideration of shares contingently issuable under terms of the stock option plans, since the effect of such inclusion would be minimal.

Notes to Consolidated Financial Statements

January 27, 1973

(1) Mortgage Note Payable

The 5 ¾% mortgage note payable is secured by land and buildings costing $1,200,000. Monthly installments of principal and interest of $7,046 are payable through 1984.

(2) Stock Option Plans

Options to purchase shares of common stock have been granted to officers and key employees at 100% of the fair market value on the date of grant, exercisable at the cumulative rate of 25% annually, subject to acceleration at the discretion of the Stock Option Committee. At January 27, 1973, 26,048 shares were available for future grants.

At January 27, 1973, options to purchase 155,200 shares were outstanding at prices ranging from $6.375 to $17.25 a share. During the year, options were exercised to purchase 39,369 shares at prices ranging from $5.50 to $7.47 a share or a total of $230,034, as compared with quoted market prices ranging from $13.00 to $18.88 a share, or a total of $646,322. Options to purchase 35,850 shares were exercisable at January 27, 1973 at prices ranging from $6.375 to $17.25 a share.

Stock options are protected against dilution in event of stock splits, stock dividends and similar events.

(3) Additional Paid-in Capital

Balance at January 29, 1972	$2,422,000
Add excess of option price over par value of 39,369 shares issued under stock option plans	191,000
Balance at January 27, 1973	$2,613,000

(4) Federal Income Taxes

	1973	1972
Taxes currently payable, net of investment credit of $184,000 (1972-$100,000)	$ 6,600,000	6,745,000
Utilization of net operating loss carry-forward of Miracle Mart,Inc.	624,000	639,000
Deferred taxes, net	21,000	(11,000)
	$ 7,245,000	7,373,000

The extraordinary credit of $624,000 included in the net earnings of the Company represents the tax benefit of the net operating loss carry-forward of Miracle Mart, Inc., which expired at January 27, 1973.

(5) Pension Plan

The total retirement expense for the year was $274,000 and included amortization of past service costs. The actuarially computed value of vested benefits as of February 1, 1972 exceeded the total of the retirement fund by approximately $233,000.

(6) Lease Commitments

Total rental expenses for the year amounted to approximately $8,726,000 (1972 - $8,285,000). The minimum amount of annual rentals (exclusive of amounts contingently payable based on sales) payable under leases for each of the following five years is:

1974 - $8,545,000;
1975 - $8,282,000;
1976 - $8,180,000;
1977 - $8,150,000;
1978 - $8,022,000;

Such leases will expire on various dates to 2001; however, it is anticipated that as leases expire, they will be renewed or new leases will be executed.

(7) Subsequent Event

In February, 1973, the Company purchased the inventory, fixtures and equipment, and leases of nine discount department stores, principally in the Ohio area, for approximately $2,400,000 in cash.

Auditor's Report

PEAT, MARWICK, MITCHELL & CO.
Certified Public Accountants
One Boston Place
Boston, Massachusetts 02108

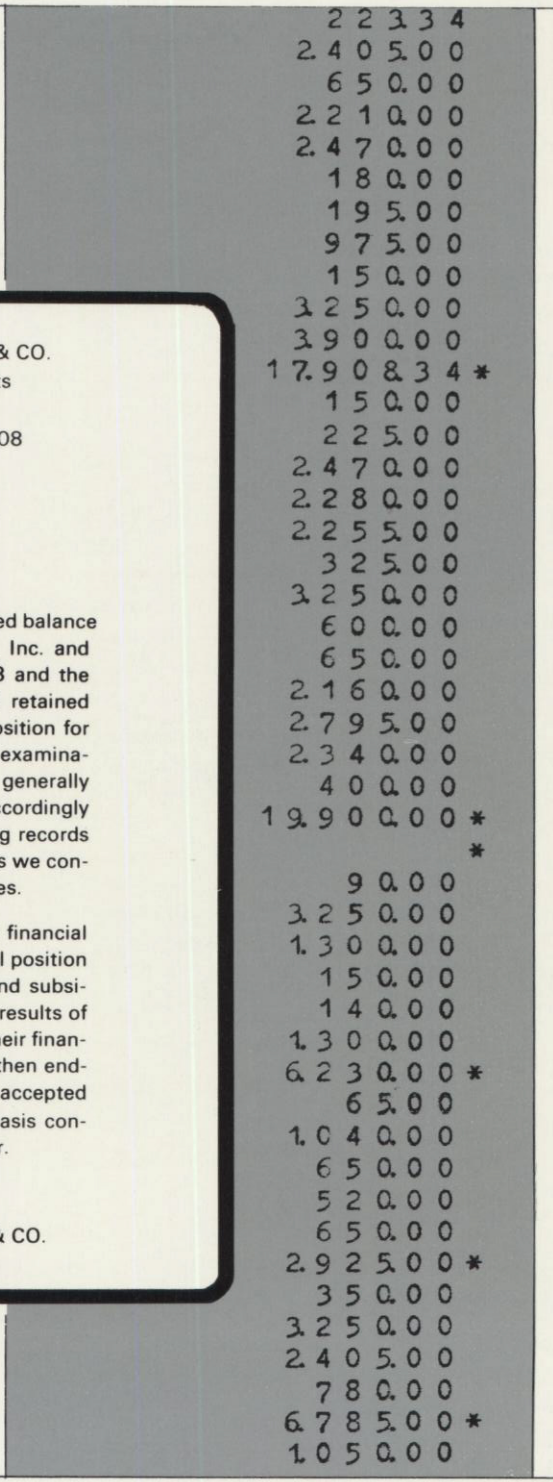
The Stockholders and
Board of Directors
King's Department Stores, Inc:

We have examined the consolidated balance sheet of King's Department Stores, Inc. and subsidiaries as of January 27, 1973 and the related statements of earnings and retained earnings and changes in financial position for the fifty-two weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such consolidated financial statements present fairly the financial position of King's Department Stores, Inc. and subsidiaries at January 27, 1973 and the results of their operations and the changes in their financial position for the fifty-two weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

April 6, 1973

PEAT, MARWICK, MITCHELL & CO.



DIRECTORS AND OFFICERS

AARON O. COHEN*
Chairman of the Board and Director

MURRAY A. CANDIB*
President and Director

WILLIAM F. KENNEY*
Executive Vice President, General Manager and Director

AARON G. GOLDBERG*
Vice-President, General Merchandise Manager and Director

NATHAN GREENBERG*
Vice-President - Finance, Secretary and Director

JACK I. HARTBLAY
Vice President and Director

F. WALTER ERICH
Treasurer and Director

CHARLES J. KITTREDGE
Director
Senior Vice President, First National Bank of Boston

H. STANLEY KRUSEN
Director
President/Retired, Shearson, Hammill & Co., Inc.

PHILIP L. LOWE
Director
President, Philip L. Lowe & Associates, Inc.

* Member of the Executive Committee of the Board of Directors

Listed New York Stock Exchange
Symbol KDT

Transfer Agents

The First National Bank of Boston
Marine Midland Trust Company, New York

General Counsel

Parker, Chapin and Flattau
330 Fifth Ave., New York

Registrars

New England Merchants National Bank, Boston
Chemical Bank New York Trust Company

Auditor

Peat, Marwick, Mitchell & Co.
One Boston Place, Boston, Mass.

KING'S DEPARTMENT STORES, INC and Subsidiaries

CONNECTICUT
Manchester
Meriden
Middletown
Milford
New Haven
Seymour
Stamford
West Hartford

FLORIDA
Ft. Lauderdale
West Palm Beach

INDIANA
Ft. Wayne (2)
Muncie
New Haven

KENTUCKY
Bowling Green
Owensboro

MAINE
Auburn
Bangor
Falmouth

MARYLAND
Cumberland
Hagerstown

MASSACHUSETTS
Agawam
Braintree
Brockton
Chicopee
East Longmeadow
Fitchburg
Hyannis
Ludlow
Methuen
Newton
North Attleboro
Norwood
Quincy
Shrewsbury
Tewksbury
West Roxbury

MICHIGAN
Grand Rapids

NEW HAMPSHIRE
Concord
Plaistow
Portsmouth

NEW JERSEY
Edgewater Park
Vineland

NEW YORK
Albany
Batavia
Buffalo
Cheektowaga
Niagara Falls
Plattsburgh
West Seneca

NORTH CAROLINA
Asheboro
Durham
Goldsboro
Greensboro
Greenville
Raleigh (2)
Sanford
Shelby
Statesville
Wilmington
Wilson
Winston-Salem (2)

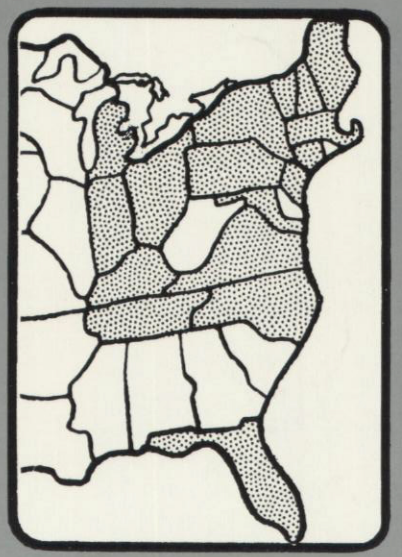
OHIO
Alliance
Lancaster
Lima (2)
Mansfield (2)
Marion
Newark
Niles
Springfield
Youngstown

PENNSYLVANIA
Allentown
Cleona
Fairless Hills
Gettysburg
Hanover
Harrisburg
Johnstown
Kingston
Lansdale
Minersville
Reading
Scranton
Wilkes-Barre
York (2)

TENNESSEE
Kingsport
Knoxville
Oak Ridge

VERMONT
Rutland

VIRGINIA
Danville
Newport News
Norfolk (2)
Richmond (2)
Virginia Beach



Coronet Cosmetics, Inc., Newton, Mass. Noble Specialties, Inc., Newton, Mass.

King's Shoes, Inc., Newton, Mass.

Main Office: 150 California Street, Newton, Massachusetts 02158

New York Office: 330 West 34th Street, New York City 10001